

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 602 - HB 643

March 22, 2015

SUMMARY OF BILL: Increases, from five and one-half percent (5.5%) to six percent (6.0%), the tax imposed on the gross amount of all dollars collected from an enrollee or on an enrollee's behalf by a health maintenance organization (HMO).

ESTIMATED FISCAL IMPACT:

Increase State Revenue - \$33,713,700

Increase State Expenditures - \$9,500,500

Increase Federal Expenditures – \$17,840,400

According to the Department of Finance and Administration, the Governor's proposed FY15-16 Budget includes revenue recognition in the amount of \$33,542,100 as a result of the proposed legislation. The budget also includes expenditures in the amount of \$27,340,850 (\$9,500,488 state and \$17,840,362 federal).

Assumptions:

- Based on information provided by the Department of Commerce and Insurance, the total HMO premium tax revenue collected at a rate of 5.5 percent was \$364,649,860 in FY13-14.
- Increasing the rate to six percent is estimated to result in total collections of \$397,799,847 $[(\$364,649,860 / .055) \times .06]$.
- The total increase in revenue is estimated to be \$33,149,987 $(\$397,799,847 - \$364,649,860)$. This includes the premium tax revenue from the TennCare program.
- Based on information provided by the Bureau of TennCare, the TennCare program pays the premium tax for its enrollees which is approximately \$26,777,100. This expenditure receives approximately 65.035 percent federal matching funds resulting in state expenditures of 34.965 percent.
- The increase in state expenditures for TennCare is estimated to be \$9,362,613 $(\$26,777,100 \times 0.34965)$.
- The increase in federal expenditures for TennCare is estimated to be \$17,414,487 $(\$26,777,100 \times 0.65035)$.
- Pursuant to SB 114 – HB 103 of the 109th General Assembly, the CoverKids program will be extended. There are projected cost increases in FY15-16 of \$6,201,250 because

the CoverKids program is moving to a health maintenance organization (HMO) and will be subject to the current 5.5 percent HMO tax that will be realized as state revenue.

- Increasing the rate to six percent is estimated to result in total revenue of \$6,765,000 $[(\$6,201,250/0.55) \times .06]$.
- The additional revenue and expenditures as a result of this bill that was not accounted for in SB 114 – HB 103 is \$563,750 (\$6,765,000 - \$6,201,250). These additional costs are projected to receive a federal match rate of 75.5432 percent and state funds at a rate of 24.4568 percent.
- The increase in state expenditures for the CoverKids program is estimated to be \$137,875 $(\$563,750 \times .244568)$
- The increase in federal expenditures for the CoverKids program is estimated to be \$425,875 $(\$563,750 \times .755432)$.
- The total increase in state revenue is estimated to be \$33,713,737 $[\$33,149,987$ (Including the \$26,777,100 TennCare program) $+ \$563,750$ (CoverKids program)].
- The increase in state expenditures is estimated to be \$9,500,488 $(\$9,362,613 + \$137,875)$.
- The increase in federal expenditures is estimated to be \$17,840,362 $(\$17,414,487 + \$425,875)$.

IMPACT TO COMMERCE:

Increase Business Expenditures - \$6,372,900

Assumption:

- Approximately \$6,372,887 of the increased premium tax revenue will be paid by HMOs throughout the state (\$33,149,987 estimated total increase - \$26,777,100 TennCare increase) resulting in a corresponding increase in business expenditures of that same amount.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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